

CITY OF CROOKS

AUDIT REPORT

DECEMBER 31, 2009

**CITY OF CROOKS
TABLE OF CONTENTS**

	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1-3
Independent Auditor's Report	4-5
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets as of December 31, 2009	6
Statement of Activities for the Year ended December 31, 2009	7-8
FUND FINANCIAL STATEMENTS	
Balance Sheet-Governmental Funds as of December 31, 2009	9
Reconciliation of the Governmental Funds Balance Sheet To the Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds-for the Year ended December 31, 2009	11
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balance to the Government-wide Statement of Activities	12-13
Balance Sheet-Proprietary Funds as of December 31, 2009	14-17
Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Fund-for the Year ended December 31, 2009	18-19
Statement of Cash Flows Proprietary Funds-for the Year Ended December 31, 2009	20-21
Notes to Financial Statements	22-44
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund (Budgetary Basis)	45-48
Notes to Required Supplementary Information	49
Schedule of Current Audit Findings	50-51
Schedule of Prior Audit Findings	52

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Crooks
Crooks, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crooks, South Dakota, as of December 31, 2009, and for the year then ended, and have issued my report thereon dated March 4, 2010.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Crooks's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency

is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiencies described in the accompanying schedule of current audit findings as item number 2009-01 and 2009-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected the City's internal control.

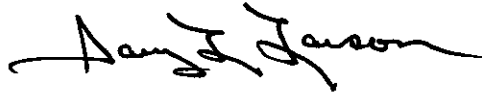
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item number 2009-01 and 2009-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Crooks's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards. See item number 2009-02 in the accompanying schedule of current audit findings.

The City of Crooks's response to the findings identified in my audit are described in the accompanying schedule of current audit findings. I did not audit the City of Crooks's response, and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Crooks, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "David E. Larson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

March 4, 2010

Gary L. Larson, CPA

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Pierre, SD 57501
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INDEPENDENT AUDITOR'S REPORT

City Council
City of Crooks
Crooks, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crooks, South Dakota, as of December 31, 2009, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Crooks's management. My responsibility is to express opinions on these financial statements based on my audit.

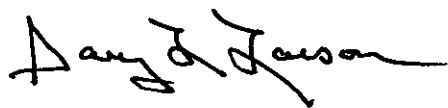
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crooks, South Dakota, at December 31, 2009, the respective changes in financial position and cash flows where applicable thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued my report dated March 4, 2010 on my consideration of the City of Crooks's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 45 through 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The City has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to a part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "David D. Johnson". The signature is fluid and cursive, with a long horizontal stroke at the end.

March 4, 2010

CITY OF CROOKS
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities	Business-type Activities	TOTAL
ASSETS:			
Cash and cash equivalents	\$253,791	\$1,192,653	\$1,446,444
Receivables	18,432	148,263	166,695
Inventory	3,020	19,036	22,056
Restricted Assets:			
Restricted Cash and cash equivalents	34,992	173,713	208,705
Deposits	4,509	0	4,509
Capital assets:			
Land	72,000	177,293	249,293
Other capital assets, net of depreciation	615,133	3,109,608	3,724,741
TOTAL ASSETS	\$1,001,877	\$4,820,566	\$5,822,443
 LIABILITIES:			
Accounts payable	\$4,290	\$99,608	\$103,898
Other current liabilities	0	38,300	38,300
Noncurrent liabilities:			
Due within one year	17,689	108,502	126,191
Due in more than one year	262,542	2,236,664	2,499,206
TOTAL LIABILITIES	284,521	2,483,074	2,767,595
 NET ASSETS:			
Invested in capital assets, net of related debt	406,902	941,735	1,348,637
Restricted for:			
Debt service	34,992	173,713	208,705
Insurance	4,509	0	4,509
Unrestricted	270,953	1,222,044	1,492,997
TOTAL NET ASSETS	717,356	2,337,492	3,054,848
 TOTAL LIABILITIES AND NET ASSETS	\$1,001,877	\$4,820,566	\$5,822,443

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF CROOKS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Functions/Programs	Expenses	PROGRAM REVENUES	NET
		Changes for Services	Governmental Activities
Governmental Activities:			
General government	\$44,032	\$0	(\$44,032)
Public safety	58,704	0	(58,488)
Public works	204,879	216	(148,494)
Health and welfare	241	56,385	(241)
Culture and recreation	57,511	0	(57,511)
Conservation and development	14,382	0	(14,382)
*Interest on long-term debt	3,461	0	(3,461)
TOTAL GOVERNMENTAL ACTIVITIES	383,210	56,601	(326,609)
Business-type Activities:			
Water	132,941	155,116	0
Sewer	109,679	116,521	0
Gas	774,066	863,443	0
TOTAL BUSINESS-TYPE ACTIVITIES	1,016,686	1,135,080	0
TOTAL	\$1,399,896	\$1,191,681	(\$326,609)

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:

Property taxes	162,117
Sales taxes	127,785
State shared revenues	25,594
Unrestricted investment earnings	2,782
Other general revenues	33,183
Total General Revenues	351,461
Change in net assets	24,852
Net Assets-beginning	692,504
NET ASSETS-ending	\$717,356

The accompanying notes to financial statements are an integral part of this statement.

(EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Business-type Activities	Total
\$0	(\$44,032)
0	(58,488)
0	(148,494)
0	(241)
0	(57,511)
0	(14,382)
0	(3,461)
0	(326,609)

22,175	22,175
6,842	6,842
89,377	89,377
118,394	118,394

\$118,394	(\$208,215)
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0	162,117
0	127,785
0	25,594
13,904	16,686
0	33,183

13,904	365,365
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132,298	157,150
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2,205,194	2,897,698
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\$2,337,492	\$3,054,848
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CITY OF CROOKS
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$250,474	\$3,317	\$253,791
Taxes receivable-			
Delinquent	2,574	451	3,025.00
Due from other governments	15,407	0	15,407.00
Inventory of supplies	3,020	0	3,020.00
Deposits	4,509	0	4,509.00
Restricted cash	34,992	0	34,992.00
TOTAL ASSETS	\$310,976	\$3,768	\$314,744
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$4,290	\$0	\$4,290
Deferred revenue	2,574	0	2,574
Total Liabilities	6,864	0	6,864
FUND BALANCES:			
Reserved for inventory	3,020	0	3,020
Reserved for debt service	34,992	0	34,992
Reserved for deposits	4,509	0	4,509
Unreserved:			
Designated for capital replacements	88,144	0	88,144
Undesignated	173,447	0	173,447
Undesignated, Reported in Non-Major Special Revenue Funds	0	3,768	3,768
Total Fund Balance	304,112	3,768	307,880
TOTAL LIABILITIES AND FUND BALANCES	\$310,976	\$3,768	\$314,744

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF CROOKS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
DECEMBER 31, 2009

Total Fund Balances-Government Funds	\$307,880
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	687,133
--	---------

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	(280,231)
--	-----------

Property taxes receivable are reported in the period to be financed by the property tax levy for both the governmental funds and the statement of net assets, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	<u>2,574</u>
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Net Assets-Governmental Funds	<u><u>\$717,356</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF CROOKS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$161,519	\$0	\$161,519
General sales taxes	113,142	9,335	122,477
Gross receipts tax	5,128	0	5,128
Amusement taxes	180	0	180
Licenses and permits	9,900	0	9,900
Intergovernmental Revenue			
State shared revenues	35,853	0	35,853
County shared revenues	1,445	0	1,445
Fines and Forfeits			
Court fines and costs	216	0	216
Miscellaneous Revenue			
Interest earned	2,782	0	2,782
Rentals	22,072	0	22,072
Street assessments	22,609	0	22,609
Contributions	1,200	0	1,200
Other	22,083	0	2,038
Total Revenue	\$398,129	\$9,335	\$407,464

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF CROOKS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$12,651	\$0	\$12,651
Executive	2,090	0	2,090
Elections	210	0	210
Financial administration	26,170	0	26,170
Other	1,819	0	1,819
Public Safety			
Police	33,475	0	33,475
Fire	23,242	0	23,242
Public Works			
Highways and streets	193,428	0	193,428
Health and Welfare			
Humane society	241	0	241
Culture and Recreation			
Parks	49,380	0	49,380
Auditorium	20,502	0	20,502
Conservation and Development			
Economic Development	8,815	5,567	14,382
Debt Service	20,568	0	20,568
Total Expenditures	392,591	5,567	398,158
Net Change in Fund Balances	5,538	3,768	9,306
FUND BALANCE JANUARY 1, 2009	298,574	0	298,574
FUND BALANCE, DECEMBER 31, 2009	\$304,112	\$3,768	\$307,880

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF CROOKS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

Net Changes in Fund Balances-Total Governmental Funds	\$9,306
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(2,159)
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Repayment of bond principle is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	17,107
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Property tax revenues are reported in the period to be financed by the property tax levy for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue.	<div style="border-top: 1px solid black; display: inline-block;">598</div>
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Change in Nets Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$24,852</div>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF CROOKS
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2009

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Gas Fund
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$251,361	\$117,393	\$823,899
Accounts receivable	11,548	8,967	127,748
Inventory of supplies	3,268	3,268	12,500
Total Current Assets	266,177	129,628	964,147
 Noncurrent Assets:			
Restricted cash and cash equivalents	20,175	2,850	150,688
 Capital Assets:			
Land	2,000	175,293	0
Buildings	13,000	0	0
Improvements other than buildings	1,375,093	705,487	1,743,772
Machinery and equipment	62,469	38,082	26,737
Accumulated Depreciation	(304,599)	(112,591)	(437,842)
Total Noncurrent Assets	1,168,138	809,121	1,483,355
 TOTAL ASSETS	\$1,434,315	\$938,749	\$2,447,502

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$1,192,653

148,263

19,036

1,359,952

173,713

177,293

13,000

3,824,352

127,288

(855,032)

3,460,614

\$4,820,566

CITY OF CROOKS
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2009

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Gas Fund
LIABILITIES			
Current Liabilities:			
Accounts payable	\$3,318	\$343	\$95,947
Customer deposits	5,875	6,125	26,300
Bonds payable current:			
Revenue	12,719	18,247	75,000
Current portion of loan payable	2,536	0	0
Total Current Liabilities	24,448	24,715	197,247
Non-current Liabilities:			
Bonds payable:			
Revenue	304,306	412,728	1,475,000
Loan payable	44,630	0	0
Total Non-current Liabilities	348,936	412,728	1,475,000
NET ASSETS			
Invested in capital assets, net of related debt	783,772	375,296	(217,333)
Restricted net assets restricted for:			
Revenue bond debt service	20,175	2,850	150,688
Unrestricted net assets	256,984	123,160	841,900
Total Net Assets	1,060,931	501,306	775,255
TOTAL LIABILITIES AND NET ASSETS	\$1,434,315	\$938,749	\$2,447,502

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$99,608
38,300

105,966
2,536

246,410

2,192,034
44,630

2,236,664

941,735

173,713
1,222,044

2,337,492

\$4,820,566

CITY OF CROOKS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	ENTERPRISE FUND		
	Water Fund	Sewer Fund	Gas Fund
OPERATING REVENUES:			
Charges for goods and services	\$155,116	\$116,521	\$863,443
OPERATING EXPENSES:			
Personal services	17,175	18,688	46,086
Other current expense	25,545	48,431	122,709
Cost of goods sold	43,318	0	491,854
Depreciation	32,247	29,075	37,229
Total Operating Expenses	118,285	96,194	697,878
Operating Income	36,831	20,327	165,565
Non-operating Revenue (Expense)			
Interest earned	2,738	1,072	10,094
Interest expense	(14,656)	(13,485)	(76,188)
Total Non-operating Revenue (Expense)	(11,918)	(12,413)	(66,094)
Change in Net Assets	24,913	7,914	99,471
NET ASSETS, BEGINNING	1,036,018	493,392	675,784
NET ASSETS, ENDING	\$1,060,931	\$501,306	\$775,255

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$1,135,080

81,949

196,685

535,172

98,551

912,357

222,723

13,904

(104,329)

(90,425)

132,298

2,205,194

\$2,337,492

CITY OF CROOKS
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Gas Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$154,653	\$116,575	\$887,225
Cash receipts for interfund services provided	212	325	3,739
Payments to suppliers	(86,948)	(48,215)	(623,512)
Cash payments for interfund services used	(2,400)	(2,400)	(7,314)
Payments to employees	(17,175)	(18,688)	(46,086)
Net Cash Provided by Operating Activities	48,342	47,597	214,052
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	0	(125,090)	0
Debt principal paid	(89,662)	0	(75,000)
Debt interest paid	(14,656)	(13,485)	(76,188)
Other Receipts	0	48,300	0
Cash Flows from Investing Activities:			
Cash received for interest	2,738	1,072	10,094
Net Increase (Decrease) in Cash and Cash Equivalents	(53,238)	(41,606)	72,958
Cash and Cash Equivalents Beginning of Year	324,774	161,849	901,629
Cash and Cash Equivalents End of Year	\$271,536	\$120,243	\$974,587
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income	\$36,831	\$20,327	\$165,565
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	32,247	29,075	37,229
Changes in Assets and Liabilities:			
Receivables	(751)	(146)	26,121
Inventories	95	94	1,325
Accounts and other payables	(20,580)	(2,278)	(17,588)
Customer deposits	500	525	1,400
Net Cash Provided by Operating Activities	\$48,342	\$47,597	\$214,052

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$1,158,453

4,276

(758,675)

(12,114)

(81,949)

309,991

(125,090)

(164,662)

(104,329)

48,300

13,904

(21,886)

1,388,252

\$1,366,366

\$222,723

98,551

25,224

1,514

(40,446)

2,425

\$309,991

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Crooks consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Statements: The statement of net assets and the statement of activities display information about the reporting entity as a whole (the City). They include all funds of the reporting entity. The statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Entertainment Tax Funds - to account for the 3rd cent sales tax on motel rooms, restaurants and bars which may only be used for the promotion of the City, land acquisition, civic centers and auditoriums and debt service related to these acquisitions (SDCL 10-52-8). This is not a major fund.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Water Fund a fund used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.

Sewer Fund a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gas Fund a fund used to record financial transactions related to gas operations. This fund is financed by user charges. This is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and,

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Crooks, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2009 are sales tax, real estate taxes, state shared revenues and miscellaneous other revenues.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statement

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2009 balance of governmental activities capital assets includes approximately 20 percent for which the costs were determined by estimates of the original costs. The total December 31, 2009 balance of business-type capital assets includes 4 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2003, are not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2003 are recorded at cost, and classified as "Improvements other than Buildings".

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 0	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	5,000	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

e. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of revenue bonds payable and notes payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

f. Cash Flows and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities or investing activities are not reported as components of operating revenues or expenses.

i. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

It is the City's policy to deposit all interest revenue to the fund making the investment.

Credit Risk - State law limit eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

As of December 31, 2009 the City has no investments as defined above.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Custodial Credit Risk - Investments - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

3. DEFERRED REVENUE

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

4. CHANGES IN FIXED ASSETS

A summary of changes in fixed assets for the year ended December 31, 2009 follows:

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Governmental Activities:				
Capital Assets				
Not being				
Depreciated				
Land	\$ 72,000	\$ -	-	\$ 72,000
Capital Assets				
Being Depreciated				
Buildings	\$ 460,895	\$ 12,984	\$ -	\$ 473,879
Improvements	122,670	-	-	122,670
Equipment	223,489	19,722	-	243,211
Totals	<u>807,054</u>	<u>32,706</u>	<u>-</u>	<u>839,760</u>
Less accumulated				
Depreciation for:				
Building	52,852	10,137	-	62,989
Improvements	46,314	5,532	-	51,846
Equipment	90,596	19,196	-	109,792
Total	<u>\$ 189,762</u>	<u>\$ 34,865</u>	<u>\$ -</u>	<u>\$ 224,627</u>
Total Capital				
Assets being				
Depreciated-				
Net	<u>\$ 617,292</u>	<u>\$ (2,159)</u>	<u>\$ -</u>	<u>\$ 615,133</u>

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN FIXED ASSETS (continued)

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Governmental Activity				
Capital Assets				
Net	\$ 689,292	\$ (2,159)	\$ -	\$ 687,133

Depreciation expense was charged to functions as follows:

General Government	\$ 1,092
Public Safety	1,987
Public Works	11,451
Culture and Recreation	<u>20,335</u>
	<u>\$ 34,865</u>

Business-type Activities:

Capital Assets				
Not being				
Depreciated				
Land	\$ 164,700	\$ 12,593	\$ -	\$ 177,293

Capital Assets

Being Depreciated

Buildings	13,000	-	-	13,000
Improvements	3,824,352	-	-	3,824,352
Equipment	<u>121,288</u>	<u>6,000</u>	<u>-</u>	<u>127,288</u>
Totals	<u>3,958,640</u>	<u>6,000</u>	<u>-</u>	<u>3,964,640</u>

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN FIXED ASSETS (continued)

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Less accumulated Depreciation for:				
Building	\$ 12,200	\$ 200	\$ -	\$ 12,400
Improvements	667,067	89,391	-	756,458
Equipment	77,214	8,960	-	86,174
Total	\$ 756,481	\$ 98,551	\$ -	\$ 855,032
Total Capital Assets being Depreciated- Net	\$3,202,159	\$ (92,551)	\$ -	\$3,109,608
Business-type Activity Capital Assets Net	\$3,366,859	\$ (79,958)	\$ -	\$3,286,901

Depreciation expense was charged to functions as follows:

Water	\$ 32,247
Sewer	29,075
Gas	37,229
	<u>\$ 98,551</u>

5. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Revenue</u>
Governmental Activities:	
Debt Payable,	
January 1, 2009	\$ 297,338
Retired	<u>(17,107)</u>

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Debt payable,
 December
 31, 2009

\$ 280,231

Due within
 One Year

\$ 17,689

	<u>Revenue</u>	<u>Other</u>	<u>Total</u>
Business-type Activities:			
Debt Payable,			
January 1, 2009	\$2,460,214	\$49,614	\$2,509,828
Retired	<u>(166,214)</u>	<u>(2,448)</u>	<u>(168,662)</u>
Debt payable,			
December			
31, 2009	<u>\$2,298,000</u>	<u>\$47,166</u>	<u>\$2,345,166</u>
Due within			
One Year	<u>\$ 105,966</u>	<u>\$ 2,536</u>	<u>\$ 108,502</u>

Debt payable at December 31, 2009 is comprised of the following:

Governmental Activities:

Sales Tax Revenue Bonds - Series 2002
 Interest rate of 5.0%, maturing October
 2033. Retired by the General Fund \$ 177,309

Sales Tax Revenue Bonds - Series 2005
 Interest rate of 4.125%, maturing
 November, 2020. Retired by the
 General Fund 34,998

Sales Tax Revenue Bonds - Series 2006
 Interest rate of 4.25%, maturing
 November, 2021. Payment is made by
 the General Fund 32,172

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Sales Tax Revenue Bonds - Series 2006
Interest rate of 4.37%, maturing
November, 2023. Payment is made by the
General Fund \$ 35,752

TOTAL GOVERNMENTAL ACTIVITIES DEBT \$ 280,231

BUSINESS-TYPE ACTIVITIES:

Revenue Bonds:

Series 2004 Gas Utility Revenue
Refunding Bonds. Interest rates of
1.9% to 5.5% (depending on length to
maturity of individual bonds),
maturing annually to April 1, 2024,
repaid by the Gas Utility Fund. The
proceeds of this issue were used to
to call and pay off the 1998 Gas
Utility Revenue Bonds \$1,550,000

Series 1972 Sewer Utility Revenue
Bonds. Interest rate of 5.0%,
maturing January 1, 2012, repaid
by the Sewer Fund 9,000

Series 1980 Water Utility Revenue
Bonds. Interest rate of 5.0%,
maturing January 1, 2020, repaid
by the Water Fund 73,000

Series 1999RD Water Utility Revenue
Bonds. Interest rate of 5.0%,
maturing August, 2039, repaid by
the Water Fund 128,432

Series 2005 "State Revolving Fund" loan
(Drinking Water #1). Due in quarterly
installments of \$2,518.33, including
3.25% interest, maturing July 15, 2025,
repaid by the Water Fund. \$ 115,593

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Series 2008, "State Revolving Fund" loan
(Clean Water #1). 3.25% interest, maturing
2028, repaid by the Sewer Fund 421,975

Total Revenue Bonds 2,298,000

Other Debt:

Loan payable to Minnehaha County
Rural Water, due in quarterly
payments of \$1,044, including 3.5%
interest, to April 15, 2024, repaid
by the Water Fund 47,166

TOTAL BUSINESS-TYPE ACTIVITY DEBT \$2,345,166

The annual requirements to amortize all debt outstanding as
of December 31, 2009:

Annual Requirements to Amortize Long-term Debt
December 31, 2009

Governmental Activities:

Year Ending December 31,	<u>Revenue</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 17,689	\$ 12,851	\$ 30,540
2011	18,129	12,051	30,180
2012	19,329	11,211	30,540
2013	19,677	10,855	30,532
2014	10,920	9,648	20,568
2015-2019	59,889	45,951	105,840
2020-2024	51,376	29,516	80,892
2025-2029	50,023	18,449	68,472
2030-2034	<u>33,199</u>	<u>14,537</u>	<u>47,736</u>
Total	<u>\$ 280,231</u>	<u>\$ 165,069</u>	<u>\$ 445,300</u>

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Business-type Activities:

Year	Revenue		Other		Total	
Ending						
December						
31,	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 105,966	\$ 100,943	\$ 2,536	\$ 1,640	\$ 108,502	\$ 102,583
2011	111,726	96,865	2,627	1,549	114,353	98,414
2012	113,544	92,462	2,717	1,459	116,261	93,921
2013	116,392	87,634	2,819	1,357	119,211	88,991
2014	122,268	82,741	2,920	1,255	125,188	83,996
2015-2019	678,626	336,737	16,251	4,628	694,877	341,365
2020-2024	824,719	157,447	17,296	1,496	842,015	158,943
2025-2029	162,311	30,994	-	-	162,311	30,994
2030-2034	29,600	12,770	-	-	29,600	12,770
2035-2039	32,848	9,522	-	-	32,848	9,522
TOTAL	<u>\$2,298,000</u>	<u>\$1,008,115</u>	<u>\$47,166</u>	<u>\$13,384</u>	<u>\$2,345,166</u>	<u>\$1,021,499</u>

6. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

7. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2009 the City managed its risk as follows:

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT (continued)

Employee Health Insurance

The City does not provide coverage for employee health insurance.

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lowers costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT (continued)

administer and provide risk management services and risk government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provided that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. A City would be eligible to receive a refund of this under certain conditions. As of December 31, 2009, the City had a vested balance of \$4,509 in the reserve fund. The City carries a \$250 deductible for the automobile coverage and \$1,000 deductible for the general liability.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. During 2009 no claims were filed or paid for unemployment, nor are any anticipated as of December 31, 2009.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

8. RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO box 1098, Pierre, SD 57501-1098 or by calling (605)773-3731.

General employees are required by the State statute to contribute 6% of their salary to the Plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for fiscal year ended December 31, 2009 and 2008 was \$4,674 and \$4,549, respectively, equal to the required contribution. 2008 was the first year of participation in SDRS.

9. INVENTORY

Inventory in the General Fund and Enterprise Funds consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

9. INVENTORY (continued)

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories of the General Fund are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

10. RESTRICTED NET ASSETS:

The following restrictions are reported in the statements:

<u>Purpose</u>	<u>Restricted by</u>	<u>Amount</u>
Debt Service	Loan agreements	\$208,705
Deposit for insurance	Insurance company	4,509
		<u>\$213,214</u>

11. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS:

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

Year Ended
12/31/2009

General Fund:

Activity:

Highways and Streets	<u>\$ 66,425</u>
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The Governing Board plans to take the following actions to address these violations:

Close monitoring of budget versus actual expenditures on a more regular basis.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

12. PLEDGED REVENUES

The City has pledged future water customers' revenues, net of specified operating expenses, to repay \$317,025 in water system revenue bonds issued in 1980, 1999 and 2005. Proceeds from the bonds provided financing for the construction of water system infrastructure.

The bonds are payable solely from water customer net revenues and are payable through 2039. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$513,245. Principal and interest paid for the current year and total customer net revenue were \$104,318 and \$69,078, respectively.

The City has also pledged future gas customers' revenues, net of specified operating expenses to repay \$1,550,000 in gas system revenue bonds issued in 2004. Proceeds from the bonds refunded a 1998 Series that provided financing for the construction of gas pipeline improvements.

The bonds are payable solely from gas customer net revenues and are payable through 2024. Annual principal and interest payments on the bonds are expected to required less than 75% of net revenues. The total principal and interest remaining to be paid on the bond is \$2,206,996. Principal and interest paid for the current year and total customer net revenues were \$151,118 and \$202,794, respectively.

The City has also pledged future sanitary sewer customers' revenues, net of specified operating expenses, to repay \$430,975 in sanitary sewer system revenue bonds issued in 1972 and 2008. Proceeds from the bonds provided financing for the construction of sanitary sewer system improvements including a new lagoon.

The bonds are payable solely from sanitary sewer customer net revenues and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 80% of net revenues. The total principal and interest remaining to be paid on the bonds is \$585,874. Principal and interest paid for the current year and total customer net revenues were \$13,485 and \$49,042, respectively.

CITY OF CROOKS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$160,212	\$160,212	\$161,519
General sales and use taxes	121,800	121,800	113,142
Gross receipts tax	5,040	5,040	5,128
Amusement tax	168	168	180
Licenses and Permits	10,500	10,500	9,900
Intergovernmental Revenue			
State shared revenue	27,930	27,930	35,853
County shared revenues	7,875	7,875	1,445
Fines and Forfeits			
Court fines	0	0	216
Miscellaneous Revenue			
Investment earnings	0	0	2,782
Rentals	0	0	22,072
Contributions	0	0	1,200
Street assessments	18,503	18,503	22,609
Other	38,658	38,658	22,083
Total Revenue	390,686	390,686	398,129

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$1,307

(8,658)

88

12

(600)

7,923

(6,430)

216

2,782

22,072

1,200

4,106

(16,575)

7,443

CITY OF CROOKS
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
EXPENDITURES:			
General Government			
Legislative	\$16,000	\$16,000	\$12,651
Executive	3,000	3,000	2,090
Elections	1,200	1,200	210
Financial administration	49,000	49,000	26,170
Other	13,185	13,185	1,819
Public Safety			
Police	33,475	33,475	33,475
Fire	23,500	23,500	23,242
Public Works			
Highways and streets	127,003	127,003	193,428
Health and Welfare			
Humane society	2,000	2,000	241
Culture and Recreation			
Parks	58,488	68,488	49,380
Auditorium	30,000	30,000	20,502
Conservation and Development			
Economic development	8,815	8,815	8,815
Debt Service	25,020	25,020	20,568
Total Expenditures	\$390,686	\$400,686	\$392,591
Net Change in Fund Balances	0	(10,000)	5,538
FUND BALANCE-Beginning	298,574	298,574	298,574
FUND BALANCE-Ending	\$298,574	\$288,574	\$304,112

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$3,349
910
990
22,830
11,366

0
258

(66,425)

1,759

19,108
9,498

0

4,452

\$8,095

15,538

0

\$15,538

CITY OF CROOKS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP).

CITY OF CROOKS
SCHEDULE OF CURRENT AUDIT FINDINGS

FINDING NUMBER 2009-01:

CONDITION FOUND:

A lack of proper segregation of duties is the present situation in the City's accounting department.

CRITERIA:

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

CAUSE AND EFFECT:

The size of the staff hired for the finance department precludes an adequate segregation of duties, resulting in a weakness in internal control.

RECOMMENDATION:

The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

CITY RESPONSE:

The City of Crook's management agrees with the finding, but does not consider it to be cost effective to hire additional staff to segregate duties. The Mayor and Council Members will maintain close supervision of financial transactions in an effort to mitigate this weakness.

FINDING NUMBER 2009-02:

The General Fund budget for "Highways and Streets" was overspent in 2009 by \$66,425.

CRITERIA:

SDCL 9-21-9 requires that City to set a budget for the anticipated obligations of each fund. The City does not have "spending authority" to expend more than the budgeted amounts, unless the budgets are properly supplemented.

CITY OF CROOKS
SCHEDULE OF CURRENT AUDIT FINDINGS

FINDING NUMBER 2009-02 (continued):

POSSIBLE ASSERTED EFFECT:

Violations of state budget regulations have occurred and a major internal control has been overridden.

RECOMMENDATION:

Spending should be within the set budgets required by SDCL 9-21-9.

CITY RESPONSE:

The City officials agree with this comment. The Finance Office and Mayor are responsible for the corrective action plan of this comment. Closer monitoring of budget versus actual expenditures and prompt supplemental budgets will be the corrective action plan for this situation.

CITY OF CROOKS
SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER 2008-01 and 2007-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1998.

CURRENT STATUS:

The condition remains the same as of December 31, 2009.